LANCASHIRE HOLDINGS LIMITED

GROWTH IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR DIVIDENDS, OF 6.1% IN Q2 2011, 6.5% YEAR TO DATE
COMBINED RATIO OF 41.2% IN Q2 2011, 69.5% YEAR TO DATE
INTERIM DIVIDEND OF 5 CENTS PER COMMON SHARE
FULLY CONVERTED BOOK VALUE PER SHARE OF $7.96 AT 30 JUNE 2011
A.M. BEST FINANCIAL STRENGTH RATING UPGRADE TO A (EXCELLENT) WITH STABLE OUTLOOK

27 July 2011
Hamilton, Bermuda

Lancashire Holdings Limited ("Lancashire" or "the Group") today announces its results for the second quarter of 2011 and the six month period ended 30 June 2011.

Financial highlights

	As at 30 June 2011	As at 30 June 2010
Fully converted book value per share	**$7.96**	**$7.86**
Return on equity* – Q2	**6.1%**	**6.5%**
Return on equity* – YTD	**6.5%**	**7.5%**
Operating return on average equity – Q2	**6.5%**	**5.7%**
Operating return on average equity – YTD	**7.0%**	**6.3%**
Interim dividend per common share**	**$0.05**	**$0.05**

* Return on equity is defined as growth in fully converted book value per share, adjusted for dividends.
** See "Dividends" below for Record Date and Dividend Payment Date.

Financial highlights:

	Three months ended 30 June 2011	Three months ended 30 June 2010	Six months ended 30 June 2011	Six months ended 30 June 2010
Highlights ($m)				
Gross premiums written	207.9	232.1	379.8	460.1
Net premiums written	191.4	218.7	329.1	422.2
Net profit after tax	88.9	84.8	97.5	93.0
Net operating profit	86.3	77.8	93.2	85.7
Share repurchases	-	87.4	-	100.3
Per share data				
Diluted earnings per share	$0.50	$0.48	$0.56	$0.52
Diluted earnings per share – operating	$0.49	$0.44	$0.53	$0.48
Financial ratios				
Total investment return	1.1%	1.4%	1.8%	2.6%
Net loss ratio	8.8%	18.7%	38.2%	50.9%
Combined ratio	41.2%	51.5%	69.5%	77.4%
Accident year loss ratio	42.7%	41.8%	73.0%	66.2%

Richard Brindle, Group Chief Executive Officer, commented:

"I am proud to report another strong performance by Lancashire generating a RoE of 6.1% for the second quarter and 6.5% for the first half of 2011. Lancashire has now increased book value per share, including dividends, for twenty-one out of the twenty-two quarters since its inception in 2005, delivering a compound annual return of 19.9%. This quarter's results, and our long-term performance, demonstrate the benefits of Lancashire's approach to underwriting. The quality of our underwriting team and our underwriting process, particularly the daily Lancashire underwriting call, remain key to our success.

After the considerable losses in Japan, Australia and New Zealand, the second quarter saw further industry losses arising from a series of U.S. tornadoes, which caused significant but localised damage. We are pleased to report that these have had a minimal effect on Lancashire. We were also one of the few companies to avoid reserve strengthening for recent natural catastrophes.

Our combined ratio for the second quarter was an excellent 41.2% and Lancashire's investments produced a return of 1.1%. Last quarter we commented on the potential impact of the RMS11 model for U.S. wind storm risk. RMS11 is fully embedded in all of Lancashire's underwriting and risk measurement. The move to RMS11 had some bearing on the small increase in U.S. wind PML from the prior quarter. Offset against this were ongoing portfolio optimisation actions. The best example of this was in Florida-exposed risks, where property catastrophe pricing had increased by a headline number of 5 to 15% but when analysed on a risk adjusted basis, we believe this was a reduction, in many cases a substantial one. As such, we no longer reinsure any Florida domiciled homeowners insurance companies. International property catastrophe business has seen significant improvements in pricing and we have increased our exposure, most notably in Japanese and New Zealand property catastrophe.

In our energy lines, we have continued to see modest but consistent rate rises. Although we are seeing more energy business, the market has not yet moved to a level where Lancashire would look to significantly expand this area of its portfolio.

The loss events of the first half of the year have led to some improved areas of pricing, and the market is now better overall than we had anticipated at the beginning of the year. Lancashire is well positioned to increase its appetite if we do see strong growth in premium rates."

Elaine Whelan, Group Chief Financial Officer, commented:

"With minimal exposure to the Q2 catastrophes and with the retro market developing much as we expected, our property retro sidecar Accordion got off to a great start. Capital calls were made for contracts incepting in June and July. We have a strong capital base heading into the U.S. wind season and the outcome of that will be an important driver of future underwriting opportunities and therefore future capital levels. Should market conditions continue to improve, we expect to be able to fully utilise our capital to generate superior underwriting returns.

We were also delighted to receive an upgrade to an A rating with a stable outlook from A.M. Best this quarter."

Lancashire Renewal Price Index for major classes

Lancashire's Renewal Price Index ("RPI") is an internal tool that management uses to track trends in premium rates on a portfolio of insurance and reinsurance contracts. The RPI is calculated on a per contract basis and reflects Lancashire's assessment of relative changes in price, terms, conditions and limits and is weighted by premium volume (see "Note Regarding RPI Tool" at the end of this announcement for further guidance). The following RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in 2010:

Class	YTD 2011	Q2 2011	Q1 2011
Aviation (AV52)	96%	100%	92%
Gulf of Mexico energy	101%	101%	100%
Energy offshore worldwide	111%	115%	104%
Marine	99%	99%	100%
Direct and facultative	101%	105%	94%
Property retrocession and reinsurance	103%	115%	101%
Terrorism	93%	99%	89%
Combined	**102%**	**106%**	**99%**

Underwriting results

Gross premiums written

	Q2				YTD			
	2011 $m	2010 $m	Change $m	Change %	2011 $m	2010 $m	Change $m	Change %
Property	62.9	73.2	(10.3)	(14.1)	165.2	225.7	(60.5)	(26.8)
Energy	123.4	122.1	1.3	1.1	152.1	159.0	(6.9)	(4.3)
Marine	10.9	24.3	(13.4)	(55.1)	44.2	56.1	(11.9)	(21.2)
Aviation	10.7	12.5	(1.8)	(14.4)	18.3	19.3	(1.0)	(5.2)
Total	**207.9**	**232.1**	**(24.2)**	**(10.4)**	**379.8**	**460.1**	**(80.3)**	**(17.5)**

Gross premiums written decreased by 10.4% in the second quarter of 2011 compared to the same period in 2010. In 2011 to date, gross premiums written decreased by 17.5% compared to the first six months of 2010.

The Group's four principal classes, and the key market factors impacting them, are discussed below.

Property gross premiums written decreased by 14.1% for the quarter compared to the same period in 2010 and decreased by 26.8% in the first six months of 2011 compared to the first six months of 2010. The majority of the reduction in the quarter, and a substantial part of the reduction in the year to date is driven by the terrorism and political risk books. Several multi-year deals written in 2010 are not currently up for renewal as these contracts continue to earn out. While multi-year contracts are typical in these classes, new business volumes this year are also lower, particularly in political and sovereign risk, given the current global climate. The property catastrophe reinsurance book was significantly affected by the after effects of the Tohoku earthquake this quarter, with some April Japanese renewals deferred to July 1. These extensions were largely offset by new business opportunities in both Japan and New Zealand, following the losses incurred in both those locations. Premiums for the year to date remain behind the same period in

2010 due to the impact of multi-year contracts written in the first quarter of 2010 not being up for renewal yet. While the property retrocession book was significantly reduced in the first quarter of 2011 relative to the first quarter of 2010 due to declining pricing and terms and conditions, the second quarter brought substantially improved trading conditions following the accumulation of industry losses. Lancashire launched its sidecar vehicle, Accordion, to take advantage of those improvements and as a result, several new deals were written in the quarter. The first six months of 2011 also included $5.5 million of reinstatement premiums compared to $13.8 million in 2010, with negligible impacts on both second quarters. Otherwise, the recent trend of declining prices in property direct and facultative has also begun to reverse and, while volumes for the quarter and the year to date are behind the prior year, the reduction is less than had been anticipated at the beginning of the year.

Energy gross premiums written increased by 1.1% for the quarter compared to the same period in 2010 and decreased by 4.3% in the first six months of 2011 compared to the first six months of 2010. Although the timing of renewals of long term contracts reduced premium volumes in the first quarter of 2011 compared to 2010, the second quarter is typically the major renewal period for the energy sector. Overall, second quarter energy premiums are broadly flat year on year. However, worldwide offshore volumes were considerably higher relative to the second quarter of 2010, driven by rate and exposure changes following the Deepwater Horizon and Gryphon losses. Conversely, Gulf of Mexico volumes were behind due to a number of large multi-year contracts written in the second quarter of 2010 which are not up for renewal yet. Nonetheless, a reasonable level of new business flow occurred, with some of this also written on a multi-year basis.

Marine gross premiums written decreased by 55.1% for the quarter compared to the same period in 2010 and decreased by 21.2% in the first six months of 2011 compared to the first six months of 2010. These reductions are primarily due to the timing of multi-year deals written in the same period in the prior year that are not currently up for renewal, offset to a degree by a few opportunistic marine retrocession deals in the post Deepwater Horizon market.

Aviation gross premiums written decreased by 14.4% for the quarter compared to the same period in 2010 and decreased by 5.2% in the first six months of 2011 compared to the first six months of 2010. While pricing and renewal rates remain under some pressure, the first two quarters of the year are not major renewal periods for the aviation sector and volumes are relatively light.

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Ceded reinsurance premiums increased by $3.1 million, or 23.1% for the quarter and increased by $12.8 million, or 33.8% for the six-month period to 30 June 2011 compared to the same periods in 2010. The Group renewed its second quarter programmes in line with 2010, purchasing some additional catastrophe cover on its U.S. property direct and facultative portfolio. Cessions from the property retrocession book to the Accordion sidecar facility also commenced following the vehicle’s launch prior to the June 1 renewals. Reinstatements on the Group’s marine and energy programme were, however, larger in the second quarter of 2010 versus 2011. Otherwise, for the year to date rate increases on our outwards marine and energy reinsurance programme following the Deepwater Horizon loss, plus reinstatement following the Gryphon loss, were largely offset by reductions across the remainder of our programme. Additional reinsurance cover was also purchased earlier in the year given the favourable rates available at that time.

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Net premiums earned as a proportion of net premiums written were 74.3% in the second quarter of 2011 compared to 66.1% in the same period in 2010 and 87.4% in the six months to 30 June 2011, compared to 74.9% in the same period in 2010. The combination of increased premium volume and a number of multi-year deals in the first half of 2010 compared to 2011 resulted in a lag in premium earnings into 2011.

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The Group's net loss ratio for the second quarter of 2011 was 8.8% compared to 18.7% for the same period in 2010 and 38.2% for the six month period to 30 June 2011 compared to 50.9% for 2010. In the second quarter of 2010 the loss ratio was impacted by the total loss of the Deepwater Horizon drilling unit, with a net claim to Lancashire of $25.0 million. Excluding this loss, the ratio for the second quarter of 2010 would have been 1.4%. Both periods had a lower number of reported losses than expected, in addition to experiencing favourable development on all prior accident year reserves.

The six months to 30 June 2011 include total estimated net losses, after reinsurance and reinstatement premiums, of $89.8 million in relation to the Tohoku and Christchurch Lyttleton earthquakes. The Group has immaterial losses in relation to the U.S. tornadoes and the June New Zealand earthquake. The first half of 2010 included an estimated net loss of $97.5 million in relation to the Chilean earthquake after reinsurance and reinstatement premiums. Absent these losses, the net loss ratios would have been 5.2% for 2011 and 16.2% for 2010.

Significant uncertainty exists on the eventual ultimate loss in relation to earthquakes.

Prior year favourable development for the second quarter of $46.1 million, compared to $39.3 million for the second quarter of 2010, reduced the net loss ratio by 32.4 points for 2011, and 27.2 points for 2010. For the year to date, prior year favourable development was $96.9 million, compared to $56.1 million for 2010, reducing the net loss ratio by 33.7 points for 2011 and 17.7 points for 2010. In early 2011 an independent external reserve study was commissioned in order to incorporate the Group's own loss experience with industry factors previously used. On completion, net reserves of $36.9 million were released.

The table below provides further detail of the prior year's loss development by class, excluding the impact of foreign exchange revaluations.

	Q2		**YTD**	
	2011	**2010**	**2011**	**2010**
	$m	**$m**	**$m**	**$m**
Property	26.7	17.1	35.3	28.3
Energy	12.7	15.2	35.4	16.9
Marine	6.6	2.5	20.7	6.1
Aviation	0.1	4.5	5.5	4.8
Total	**46.1**	**39.3**	**96.9**	**56.1**

Note: Positive numbers denote favourable development and negative numbers denote adverse development.

The accident year loss ratio for the second quarter of 2011, including the impact of foreign exchange revaluations, was 42.7% compared to 41.8% for the same period in 2010. The year to date accident year loss ratio was 73.0% compared to 66.2% for the six months to 30 June 2010. The 2011 accident year loss ratio for the six months to 30 June 2011 included:

- 25.2% for the Tohoku earthquake;
- 17.5% for the Gryphon loss; and
- 6.7% for the Christchurch Lyttleton earthquake.

The 2010 accident year loss ratio for the six months to 30 June 2010 included:

- 33.9% for the Chilean earthquake; and
- 9.1% for Deepwater Horizon.

Otherwise, both years experienced relatively low levels of reported losses.

Excluding the impact of foreign exchange revaluations, previous accident years' ultimate losses developed as follows during 2011:

- 2006 - favourable development of $1.8 million (2010: $0.9 million);
- 2007 - favourable development of $9.8 million (2010: $1.3 million);
- 2008 - favourable development of $15.4 million (2010: $26.3 million);
- 2009 - favourable development of $26.2 million (2010: $27.6 million); and
- 2010 - favourable development of $43.7 million.

The ratio of IBNR to total reserves was 27.9% at 30 June 2011 compared to 35.6% at 30 June 2010.

Investments

The Group continues to hold a relatively conservative investment portfolio, consistent with its long-held philosophy, and a strong emphasis on preserving capital. In anticipation of rising interest rates in 2011, the Group has gradually reduced duration and added a small allocation to equity securities. The managed portfolio was as follows:

	As at 30 June 2011	**As at 30 June 2010**
Fixed income securities	78.2%	88.3%
Cash and cash equivalents	18.2%	11.6%
Equity securities	3.6%	-
Other investments	-	0.1%
Total	100.0%	100.0%

Key investment portfolio statistics are:

	As at 30 June 2011	**As at 31 December 2010**	**As at 30 June 2010**
Duration	1.8 years	2.2 years	2.4 years
Credit quality	AA	AA	AA
Book yield	2.2%	2.4%	2.8%
Market yield	1.6%	1.9%	1.9%

Net investment income, excluding realised and unrealised gains and losses, was $12.2 million for the second quarter of 2011, a decrease of 12.2% from the second quarter of 2010. The decrease was due to lower yields compared to the second quarter of 2010.

Total investment return, including net investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was $21.1 million for the second quarter of 2011 compared to $28.5 million for the second quarter of 2010, and was $32.8 million for the 2011 year to date versus $53.2 million for the same period in 2010. Comparative returns were lower than 2010 due to the investment portfolio duration being reduced and a lower yield environment. The portfolio duration was reduced by over half a year in order to reduce exposure to rising interest rates. The Group continues to hold an emerging market debt portfolio. Currently 7.3% of the portfolio is allocated to emerging markets with an overall average credit quality of BBB. The corporate bond allocation, excluding Federal Deposit Insurance Corporation guaranteed bonds, represented 32.6% of managed invested assets at 30 June 2011 compared to 27.7% at 30 June 2010.

Other operating expenses

Other operating expenses, excluding employee remuneration, are broadly consistent compared with the same period in 2010, reflecting the Group's stable operating platform. Excluding a reduction of $6.7 million for the prior year in relation to the final determination of the previous year's variable compensation and equity based compensation, total employment costs were $21.5 million for both six month periods.

Equity based compensation was $5.8 million in the second quarter of 2011 compared to $4.7 million in the same period last year. For the six months to 30 June 2011 and 2010 the charge was $12.2 million and $10.6 million respectively. The increase in the 2011 expense reflects the maturing restricted share awards programme, plus an increase in vesting assumptions given the Group's performance and an increase in the proportion of employees' variable compensation provided as deferred shares. The restricted share programme began in 2008 and shares typically vest after a three year period.

Capital

At 30 June 2011, total capital was $1.512 billion, comprising shareholders' equity of $1.38 billion and $131.5 million of long-term debt. Leverage was 8.7%. Total capital was $1.487 billion at 30 June 2010 and $1.416 billion at 31 December 2010.

Repurchase programme

At the Annual General Meeting held on 5 May 2011 the shareholders approved a renewed share repurchase programme with such authority to expire at the conclusion of the 2012 Annual General Meeting or, if earlier, 15 months from the date the resolution approving the renewed share repurchase programme was passed, authorising a maximum of 16,860,242 shares to be repurchased.

No shares were repurchased during the six months to 30 June 2011 compared to $87.4 million of shares which were repurchased during the second quarter of 2010.

Dividends

Lancashire announces that its Board has declared an interim dividend for 2011 of 5 cents per common share (approximately 3 pence per common share at the current exchange rate), which results in an aggregate payment of approximately $7.8 million. The dividend will be paid in Pounds Sterling on 28 September 2011 (the "Dividend Payment Date") to shareholders of record on 26 August 2011 (the "Record Date") using the £ / $ spot market exchange rate at 12 Noon London time on the Record Date.

In addition to the final dividend payment to shareholders, approximately $1.8 million in aggregate will be paid on the Dividend Payment Date to holders of share warrants issued by the Company pursuant to the terms of the warrants.

The Group will continue to review the appropriate level and composition of capital for the Group with the intention of managing capital to enhance risk-adjusted returns on equity.

Financial information

Further details of our 2011 second quarter results can be obtained from our Financial Supplement. This can be accessed via our website www.lancashiregroup.com.

Prior to the end of July 2011, we intend to publish our Unaudited Condensed Interim Consolidated Financial Statements for the six months ended 30 June 2011 via our website www.lancashiregroup.com.

Analyst and Investor Earnings Conference Call

There will be an analyst and investor conference call on the results at 1:00pm UK time / 8:00 am EST on Wednesday, 27 July 2011. The conference call will be hosted by Lancashire management.

The call can be accessed by dialing +44 (0)20 8817 9301/ +1 718 354 1226 with the pass code 5093007. The call can also be accessed via webcast, please go to our website (www.lancashiregroup.com) to access.

A replay facility will be available for two weeks until Wednesday, 10 August 2011. The dial in number for the replay facility is +44 (0) 20 77696425 with pass code 5093007# .The replay facility can also be accessed at www.lancashiregroup.com

For further information, please contact:

Lancashire Holdings Limited

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Investor enquiries and questions can also be directed to info@lancashiregroup.com or by accessing the Group's website www.lancashiregroup.com.

About Lancashire

Lancashire, through its UK and Bermuda-based insurance subsidiaries, is a global provider of specialty insurance products. The Group companies carry the following ratings:

	Financial Strength Rating (1)	**Long Term Issuer Rating (2)**	**Outlook**
A.M. Best	A	bbb	Stable
Standard & Poor's	A-	BBB	Stable
Moody's	A3	Baa2	Stable

(1)Financial Strength Rating applies to Lancashire Insurance Company Limited and Lancashire Insurance Company (UK) Limited

(2) Long Term Issuer Rating applies to Lancashire Holdings Limited

Lancashire has capital in excess of $1 billion and its Common Shares trade on the main market of the London Stock Exchange under the ticker symbol LRE. Lancashire has its corporate headquarters at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda. The mailing address is Lancashire Holdings

Limited, P.O. Box HM 2358, Hamilton HM HX, Bermuda. For more information on Lancashire, visit the Company's website at www.lancashiregroup.com

Lancashire Insurance Company Limited is regulated by the Bermuda Monetary Authority in Bermuda.
Lancashire Insurance Company (UK) Limited is regulated by the Financial Services Authority in the UK.
Lancashire Marketing Services (Middle East) Limited is authorised and regulated by the Dubai Financial Services Authority.

NOTE REGARDING RPI TOOL

LANCASHIRE'S RENEWAL PRICE INDEX ("RPI") IS AN INTERNAL TOOL THAT ITS MANAGEMENT USES TO TRACK TRENDS IN PREMIUM RATES OF A PORTFOLIO OF INSURANCE AND REINSURANCE CONTRACTS. THE RPI IS CALCULATED ON A PER CONTRACT BASIS AND REFLECTS LANCASHIRE'S ASSESSMENT OF RELATIVE CHANGES IN PRICE, TERMS, CONDITIONS AND LIMITS AND IS WEIGHTED BY PREMIUM VOLUME. THE CALCULATION INVOLVES A DEGREE OF JUDGEMENT IN RELATION TO COMPARABILITY OF CONTRACTS AND THE ASSESSMENT NOTED ABOVE. TO ENHANCE THE RPI TOOL, MANAGEMENT OF LANCASHIRE MAY REVISE THE METHODOLOGY AND ASSUMPTIONS UNDERLYING THE RPI, SO THE TRENDS IN PREMIUM RATES REFLECTED IN THE RPI MAY NOT BE COMPARABLE OVER TIME. CONSIDERATION IS ONLY GIVEN TO RENEWALS OF A COMPARABLE NATURE SO IT DOES NOT REFLECT EVERY CONTRACT IN LANCASHIRE'S PORTFOLIO. THE FUTURE PROFITABILITY OF THE PORTFOLIO OF CONTRACTS WITHIN THE RPI IS DEPENDENT UPON MANY FACTORS BESIDES THE TRENDS IN PREMIUM RATES.

NOTE REGARDING FORWARD-LOOKING STATEMENTS:

CERTAIN STATEMENTS AND INDICATIVE PROJECTIONS (WHICH MAY INCLUDE MODELED LOSS SCENARIOS) MADE IN THIS RELEASE OR OTHERWISE THAT ARE NOT BASED ON CURRENT OR HISTORICAL FACTS ARE FORWARD-LOOKING IN NATURE INCLUDING WITHOUT LIMITATION, STATEMENTS CONTAINING THE WORDS 'BELIEVES', 'ANTICIPATES', 'PLANS', 'PROJECTS', 'FORECASTS', 'GUIDANCE', 'INTENDS', 'EXPECTS', 'ESTIMATES', 'PREDICTS', 'MAY', 'CAN', 'WILL', 'SEEKS', 'SHOULD', OR, IN EACH CASE, THEIR NEGATIVE OR COMPARABLE TERMINOLOGY. ALL STATEMENTS OTHER THAN STATEMENTS OF HISTORICAL FACTS INCLUDING, WITHOUT LIMITATION, THOSE REGARDING THE GROUP'S FINANCIAL POSITION, RESULTS OF OPERATIONS, LIQUIDITY, PROSPECTS, GROWTH, CAPITAL MANAGEMENT PLANS, BUSINESS STRATEGY, PLANS AND OBJECTIVES OF MANAGEMENT FOR FUTURE OPERATIONS (INCLUDING DEVELOPMENT PLANS AND OBJECTIVES RELATING TO THE GROUP'S INSURANCE BUSINESS) ARE FORWARD-LOOKING STATEMENTS. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER IMPORTANT FACTORS THAT COULD CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF THE GROUP TO BE MATERIALLY DIFFERENT FROM FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS.

THESE FACTORS INCLUDE, BUT ARE NOT LIMITED TO: THE NUMBER AND TYPE OF INSURANCE AND REINSURANCE CONTRACTS THAT WE WRITE; THE PREMIUM RATES AVAILABLE AT THE TIME OF SUCH RENEWALS WITHIN OUR TARGETED BUSINESS LINES; THE LOW FREQUENCY OF LARGE EVENTS; UNUSUAL LOSS FREQUENCY; THE IMPACT THAT OUR FUTURE OPERATING RESULTS, CAPITAL POSITION AND RATING AGENCY AND OTHER CONSIDERATIONS HAVE ON THE EXECUTION OF ANY CAPITAL MANAGEMENT INITIATIVES; THE POSSIBILITY OF GREATER FREQUENCY OR SEVERITY OF CLAIMS AND LOSS ACTIVITY THAN OUR UNDERWRITING, RESERVING OR INVESTMENT PRACTICES HAVE ANTICIPATED; THE RELIABILITY OF, AND CHANGES IN ASSUMPTIONS TO, CATASTROPHE PRICING, ACCUMULATION AND ESTIMATED LOSS MODELS; LOSS OF KEY PERSONNEL; A DECLINE IN OUR OPERATING SUBSIDIARIES' RATING WITH A.M. BEST, STANDARD & POOR'S, MOODY'S OR OTHER RATING AGENCIES; INCREASED COMPETITION ON THE BASIS OF PRICING, CAPACITY, COVERAGE TERMS OR OTHER FACTORS; A CYCLICAL DOWNTURN OF THE INDUSTRY; THE IMPACT OF A DETERIORATING CREDIT ENVIRONMENT FOR ISSUERS OF FIXED INCOME INVESTMENTS; THE IMPACT OF SWINGS IN MARKET INTEREST RATES AND SECURITIES PRICES; A RATING DOWNGRADE OF, OR A MARKET DECLINE IN, SECURITIES IN OUR INVESTMENT PORTFOLIO; CHANGES IN GOVERNMENTAL REGULATIONS OR TAX LAWS IN JURISDICTIONS WHERE LANCASHIRE CONDUCTS BUSINESS; LANCASHIRE OR ITS BERMUDIAN SUBSIDIARY BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR THE UNITED KINGDOM; AND THE EFFECTIVENESS OF OUR LOSS LIMITATION METHODS; THE UK TEMPORARY PERIOD EXEMPTION UNDER THE CURRENT CFC REGIME REMAINS IN FORCE FOR THE PERIOD INTENDED AND IS CONTAINED IN THE UK FINANCE ACT 2011; THE UK GOVERNMENT BRINGS BEFORE PARLIAMENT LEGISLATION CONTAINING A SUITABLE NEW CFC REGIME IN LINE WITH THE PROPOSALS OUTLINED IN THE CONSULTATION DOCUMENT; THE LEGISLATION AND NEW CFC REGIME INCLUDE A SUITABLE EXCLUSION RELATING TO LARGE RISKS WRITTEN IN THE INTERNATIONAL INSURANCE MARKET, ANY CHANGE IN UK GOVERNMENT OR THE UK GOVERNMENT POLICY DOES NOT IMPACT THE TEMPORARY PERIOD EXEMPTION, THE ANTICIPATED TERRITORIAL BUSINESS EXEMPTION OR OTHER ASPECTS OF THE NEW CFC REGIME; THE IMPLEMENTATION OF THE CHANGE IN TAX RESIDENCE DOES NOT NEGATIVELY IMPACT STAKEHOLDERS OF LANCASHIRE IN A MATERIAL WAY; AND CHANGES IN OTHER GOVERNMENTAL REGULATIONS OR TAX LAWS IN OTHER JURISDICTIONS WHERE LANCASHIRE CONDUCTS BUSINESS.

THESE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS AT THE DATE OF PUBLICATION. LANCASHIRE HOLDINGS LIMITED EXPRESSLY DISCLAIMS ANY OBLIGATION OR UNDERTAKING (SAVE AS REQUIRED TO COMPLY WITH ANY LEGAL OR REGULATORY OBLIGATIONS (INCLUDING THE RULES OF THE LONDON STOCK EXCHANGE)) TO DISSEMINATE ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENTS TO REFLECT ANY CHANGES IN THE GROUP'S EXPECTATIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED.

Consolidated statement of comprehensive income
(Unaudited)

	Quarter 2 2011 $m	Quarter 2 2010 $m	YTD 2011 $m	YTD 2010 $m
Gross premiums written	207.9	232.1	379.8	460.1
Outwards reinsurance premiums	(16.5)	(13.4)	(50.7)	(37.9)
Net premiums written	191.4	218.7	329.1	422.2
Change in unearned premiums	(53.4)	(72.5)	(67.9)	(120.4)
Change in unearned premiums ceded	4.3	(1.6)	26.3	14.6
Net premiums earned	142.3	144.6	287.5	316.4
Net investment income	12.2	13.9	23.8	27.6
Net other investment income	0.1	0.1	-	-
Net realised gains (losses) and impairments	2.6	8.5	5.0	12.8
Net foreign exchange (losses) gains	1.8	(1.9)	0.9	(3.6)
Total net revenue	159.0	165.2	317.2	353.2
Insurance losses and loss adjustment expenses	17.6	59.1	122.7	192.6
Insurance losses and loss adjustment expenses recoverable	(5.1)	(32.1)	(12.9)	(31.7)
Net insurance acquisition expenses	26.2	27.7	51.6	54.3
Equity based compensation	5.8	4.7	12.2	10.6
Other operating expenses	19.9	19.6	38.6	29.4
Total expenses	64.4	79.0	212.2	255.2
Results of operating activities	94.6	86.2	105.0	98.0
Financing costs	3.6	1.7	5.6	3.4
Profit before tax	91.0	84.5	99.4	94.6
Tax charge (credit)	2.1	(0.3)	1.9	1.6
Profit for the period attributable to equity shareholders	88.9	84.8	97.5	93.0
Net change in unrealised (losses) gains on investments	6.5	6.3	4.4	13.3
Tax on net change in unrealised (losses) gains on investments	(0.3)	(0.3)	(0.4)	(0.5)
Other comprehensive income	6.2	6.0	4.0	12.8
Total comprehensive income attributable to equity shareholde	95.1	90.8	101.5	105.8
Net loss ratio	8.8%	18.7%	38.2%	50.9%
Net acquisition cost ratio	18.4%	19.2%	17.9%	17.2%
Administrative expense ratio	14.0%	13.6%	13.4%	9.3%
Combined ratio	41.2%	51.5%	69.5%	77.4%
Basic earnings per share	$0.58	$0.53	$0.64	$0.56
Diluted earnings per share	$0.50	$0.48	$0.56	$0.52
Change in fully converted book value per share	6.1%	6.5%	6.5%	7.5%

Consolidated balance sheet

	Unaudited 30 Jun 2011 $m	Unaudited 30 Jun 2010 $m	Audited 31 Dec 2010 $m
Assets			
Cash and cash equivalents	448.9	268.7	512.5
Accrued interest receivable	11.8	12.9	13.4
Investments			
- Fixed income securities, available for sale	1,637.3	1,836.9	1,719.1
- Fixed income securities, at fair value through profit or loss	8.6	-	-
- Equity securities, available for sale	75.2	-	-
- Other investments	(0.4)	1.1	(0.2)
Reinsurance assets			
- Unearned premiums on premiums ceded	29.2	20.2	2.9
- Reinsurance recoveries	46.1	47.8	35.9
- Other receivables	0.1	2.0	5.6
Deferred acquisition costs	70.5	74.8	61.2
Other receivables	10.3	14.0	45.7
Inwards premiums receivable from insureds and cedants	292.6	285.4	217.5
Deferred tax asset	7.7	3.7	6.4
Investment in associate	7.5	-	-
Property, plant and equipment	6.8	8.0	7.4
Total assets	**2,652.2**	**2,575.5**	**2,627.4**
Liabilities			
Insurance contracts			
- Losses and loss adjustment expenses	576.7	583.7	507.5
- Unearned premiums	418.5	438.0	350.6
- Other payables	19.7	19.6	20.6
Amounts payable to reinsurers	22.8	12.7	4.4
Deferred acquisition costs ceded	1.2	2.8	0.1
Other payables	97.7	27.0	321.4
Corporation tax payable	1.7	2.3	6.3
Interest rate swap	2.0	2.2	0.8
Long-term debt	131.5	126.3	128.8
Total liabilities	**1,271.8**	**1,214.6**	**1,340.5**
Shareholders’ equity			
Share capital	84.3	86.7	84.3
Own shares	(90.5)	(117.1)	(106.9)
Share premium	2.4	2.4	2.4
Contributed surplus	659.6	699.1	662.6
Accumulated other comprehensive income	32.2	43.2	28.2
Other reserves	68.2	65.4	70.7
Retained earnings	624.2	581.2	545.6
Total shareholders' equity attributable to equity shareholders	**1,380.4**	**1,360.9**	**1,286.9**
Total liabilities and shareholders' equity	**2,652.2**	**2,575.5**	**2,627.4**

Statement of consolidated cashflows
(unaudited)

	Unaudited Six months 2011 $m	Unaudited Six months 2010 $m	Audited Twelve months 2010 $m
Cash flows from operating activities			
Profit before tax	99.4	94.6	339.2
Tax paid	(6.4)	(2.7)	(5.8)
Depreciation	1.4	1.3	2.6
Interest expense	2.8	2.7	5.4
Interest and dividend income	(29.0)	(34.2)	(68.3)
Accretion of fixed income securities	3.1	4.7	11.0
Equity based compensation	12.2	10.6	21.1
Foreign exchange (gains) losses	0.1	2.4	(2.1)
Net other investment income	-	-	(0.1)
Net realised (gains) losses and impairments	(5.0)	(12.8)	(33.2)
Unrealised (gain) loss on interest rate swaps	1.3	(1.4)	(2.8)
Changes in operational assets and liabilities			
- Insurance and reinsurance contracts	34.7	77.2	9.0
- Other assets and liabilities	73.0	(14.1)	(7.2)
Net cash flows from operating activities	**187.6**	**128.3**	**268.8**
Cash flows used in investing activities			
Interest and dividends received	30.6	33.3	66.9
Net purchase of property, plant and equipment	(0.8)	(1.3)	(2.3)
Investment in associate	(7.5)	-	-
Purchase of fixed income securities	(801.6)	(1,368.5)	(2,635.5)
Purchase of equity securities	(76.4)	-	-
Proceeds on maturity and disposal of fixed income securities	882.7	1,443.5	2,828.5
Proceeds on disposal of equity securities	2.0	-	-
Net proceeds on other investments	(0.6)	0.6	1.6
Net cash flows from investing activities	**28.4**	**107.6**	**259.2**
Cash flows used in financing activities			
Interest paid	(2.8)	(2.7)	(5.4)
Dividends paid	(282.9)	(283.8)	(293.2)
Shares repurchased	-	(112.1)	(149.5)
Distributions by trust	(3.3)	-	-
Net cash flows used in financing activities	**(289.0)**	**(398.6)**	**(448.1)**
Net (decrease) increase in cash and cash equivalents	**(73.0)**	**(162.7)**	**79.9**
Cash and cash equivalents at beginning of period	512.5	440.0	440.0
Effect of exchange rate fluctuations on cash and cash equivalents	9.4	(8.6)	(7.4)
Cash and cash equivalents at end of period	**448.9**	**268.7**	**512.5**